



The Consequences of the Kosovo Conflict on Southeastern Europe

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I. Introduction

During the initial stage of the Kosovo crisis, the international community held out promises of substantial support to neighboring countries if they stood strong against Serbian aggression. President Clinton spoke about launching a Marshall Plan for Southeastern Europe to help rebuild a region crippled by war.¹ NATO leaders showered promises of military protection and economic help to Yugoslavia's neighbors for siding with the alliance on Kosovo. In fact, NATO's "direct and real interest" in the security of the neighboring countries caused the alliance to be at "the forefront of the international community in supplying money and material" to these countries.² To prevent any widening of the conflict, neighboring countries received security support from both the international community and NATO. Indeed, the NATO alliance did not hesitate to assure the neighboring countries that it would stand by them throughout the crisis, given their importance to NATO's overall efforts to stabilize the region.³ Did the international community keep its promise? Did the region pay an extraordinary price for assisting the alliance in its actions against Belgrade? Can the region fully recover from the Kosovo crisis?

This article offers a preliminary assessment of the effects of the Kosovo war on Southeastern Europe and addresses regional reconstruction efforts up to and including the recently adopted Stability Pact. Much can be established empirically. For instance, economic performance before and after the war can be measured with relative accuracy. One can also count the number of refugees fleeing Kosovo and assess the economic and infrastructural

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1. President Bill Clinton, Remarks to the Veterans of Foreign Wars (May 13, 1999), *available at* <http://www.usis.it/file9905/alia/99051405.htm>.

2. *Id.*

3. Ben Partridge, *NATO Worries About Effect on Neighboring Countries* (Mar. 31, 1999), *available at* <http://www.rferl.org/nca/features/1999/03/F.RU.990331132001.html>.

burden this imposed on host countries. This article also attempts to discern some of the trends leading up to the war, including the breakup of the former Yugoslavia, the early warnings of the Kosovo crisis, and the initial response from the international community to the crisis.

When discussing Southeastern Europe,⁴ it is important to note that it is a heterogeneous region whose combined population of fifty-six million equals just eighty-four percent of the population of Central Europe⁵ and fifteen percent of the European Union.⁶ Romania, with a population of twenty-two million, is the region's largest and most populous nation and is ten times the size of Macedonia,⁷ the region's least populous nation. Per capita gross domestic product (GDP) ranges from \$760 for Albania to \$5,100 for Croatia.⁸ Its one homogeneous characteristic has been a decade of conflict. Southeastern Europe's confused and dismembered past recorded another chapter with the intervention of NATO during the Kosovo crisis.

II. Early Warnings

During the tumultuous decade of the 1990s, the situation building in Kosovo was largely overshadowed by developments elsewhere in the former Yugoslavia.⁹ While the 1995 Dayton Accords were successful in resolving the Bosnian conflict, they were flawed by the fact that Kosovo was deliberately left off the negotiation agenda. Western powers and the United Nations essentially ignored the Kosovo problem, even though Balkan leaders and international organizations forewarned of Serbia's oppressive actions against Kosovo and growing regional instability. Because the Dayton agreement created an ethnically divided Bosnia-Herzegovina, with a Muslim/Croat Federation and the Serb-led Republic of Srpska within Bosnia's previously recognized border, expectations were heightened among Kosovar Albanians for some degree of independence from Serbia.¹⁰ Perhaps more importantly, the failure to improve Kosovo's situation at Dayton likely signaled to Kosovo's leaders that a continued effort to gain international support while opposing the Belgrade regime non-violently would be fruitless.¹¹

Under the 1974 Constitution of the former Socialist Federal Republic of Yugoslavia, a significant devolution of power occurred, shifting authority away from the central govern-

4. For purposes of this paper, Southeastern Europe includes Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, and the Federal Republic of Yugoslavia (FRY). The autonomous province of Kosovo is located in the southern part of the Republic of Serbia and is a constituent of the FRY. The Republic of Montenegro, also a constituent of the FRY, borders Kosovo on the north and northwest.

5. Poland, Hungary, Czech Republic, Slovenia, and Slovak Republic.

6. WORLD BANK, EUROPE AND CENTRAL ASIA REGION, THE ROAD TO STABILITY AND PROSPERITY IN SOUTH EASTERN EUROPE A REGIONAL STRATEGY PAPER 10 (2000), available at <http://www.worldbank.org/html/extpb/absthtml/14725.htm> [hereinafter ROAD TO STABILITY].

7. *Id.*

8. CENTRAL INTELLIGENCE AGENCY, THE WORLD FACTBOOK ONLINE 1999 (1999), at <http://www.cia.gov/cia/publications/factbook/index.html>; IMF STAFF COUNTRY REPORT, ALBANIA: STAFF REPORT FOR THE 2000 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE SECOND ANNUAL ARRANGEMENT UNDER THE POVERTY REDUCTION AND GROWTH FACILITY 15 (2000) [hereinafter ALBANIA STAFF REPORT].

9. *Kosovo—The Start of a New Balkan War?*, at <http://www.oneworld.org/euconflict/guides/surveys/kosovo.htm> (last visited June 21, 2000).

10. LEO TINDEMANS ET AL., UNFINISHED PEACE—REPORT OF THE INTERNATIONAL COMMISSION ON THE BALKANS 117 (1996).

11. Discussions between the author and Kosovar Albanians during a 1997 trip to the region.

ment in Belgrade to the six constituent republics of the country.¹² Within Serbia, Kosovo was given substantial autonomy, including oversight of its educational system, judiciary, and police. Albanian became the official language of the province. Kosovo also was given its own provincial assembly. Prior to the Kosovo crisis, the population of Kosovo was between 1.8 million and 2.1 million, of which roughly eighty-five to ninety percent were Kosovar Albanians.¹³

In April 1987, Slobodan Milosevic, who was then-Chairman of the Presidium of the Central Committee of the League of Communists of Serbia, traveled to Kosovo. On June 28, 1989, in a speech before a crowd of over one million local Serbs, at the 600th anniversary of the Ottoman-Serbian Battle of Kosovo, Milosevic set forth a Serbian nationalist agenda for Kosovo.

By the end of 1989, anti-Kosovo rhetoric from Belgrade reached a new high. Earlier that year, the Serbian Assembly debated a series of amendments to the Constitution of Serbia stripping Kosovo of its autonomous status. On May 8, 1989, the Assembly approved the constitutional changes effectively revoking the autonomy granted in the 1974 Yugoslav Constitution. Belgrade then pursued a set of harsh and repressive policies in Kosovo while making it clear that it would never "give up" this province populated largely by ethnic Albanians.¹⁴ Repressive policies continued with such acts as the dismissal of tens of thousands of ethnic Albanians from all professions, the introduction of a unified education system that excluded instruction in the Albanian language beyond elementary school, and the closing of the Albanian-dominated University of Pristina as well as Albanian language media. High-ranking Kosovar Albanian political figures were replaced with supporters of Milosevic. Albanian political organizations as well as cultural and sports associations were banned.¹⁵ New laws were passed that same year, making it a crime for ethnic Albanians in Kosovo to buy or sell property without permission from Belgrade.¹⁶

A year later, in July 1990, this same Serbian Assembly suspended the Assembly of Kosovo after 114 of the 123 Kosovo Albanian delegates from that Assembly declared Kosovo an equal and independent entity within the Federal Republic of Yugoslavia (FRY). In September 1991, Kosovar Albanians held a referendum in which they voted overwhelmingly for independence.

Massive police violence initiated by Belgrade became commonplace in Kosovo, including arbitrary arrests, custodial torture, and denials and violations of the rights of Kosovar Albanians. Political show trials were prevalent, in which ethnic Albanian police officers were

12. Slovenia, Croatia, Macedonia, Bosnia-Herzegovina, Serbia, and Montenegro.

13. Indictment Prosecutor v. Milosevic, IT-99-37 (1999), at <http://www.un.org/icty/indictment/english/mil-ii990524e.htm> [hereinafter *Milosevic*].

14. In 1996, Rump Yugoslavia President Zoran Lolic stated, "Albanians [are] contaminated by separation [and] should give up this crazy idea since Kosovo will never secede from Serbia." Open Media Research Institute (OMRI) Daily Digest, *Rump Yugoslav President in Kosovo* (Feb. 15, 1996), at <http://www.rferl.org/newsline/1996/02/4-SEE/see%2D150296.html>. Speaking to a crowd of Serbs in Kosovo, then Serbian president Slobodan Milosevic said Belgrade would never give up the majority ethnic Albanian region. *Serbia: Milosevic Says Belgrade Will Never Give Up on Kosovo*, RFE/RL NEWSLINE (June 25, 1997), at <http://www.rferl.org/nca/news/1997/06/N.RU.970625152407.html>.

15. Discussions with Kosovo Albanian colleagues; RFE/RL Research Report, vol. 2, no. 39, October 1, 1993.

16. SELECT COMMITTEE ON FOREIGN AFFAIRS, UNITED KINGDOM PARLIAMENT, FOURTH REPORT ¶ 18 1999, available at <http://www.parliament.the-stationary-office.co.uk/pa/cm199900/cmselect/cmfa/28/2807.htm>.

placed on trial and sentenced to prison. Kosovar Albanians lived an "underground existence."¹⁷

Yet Belgrade's increasingly oppressive policies against Kosovo and Kosovar Albanians did not go unnoticed. Early on, many observers predicted that Belgrade's ongoing assault on Kosovo would develop into an all-out war.¹⁸

III. Initial Reaction from the International Community

One of the earliest international organizations to focus on the potential crisis in Kosovo was the Conference on Security and Cooperation in Europe (CSCE) [now the Organization for Security and Cooperation in Europe (OSCE)]. In its meetings in 1991, the CSCE aggressively criticized Serbia for its oppressive policies toward Kosovo.¹⁹ In 1992, the CSCE reported on "the grave situation of ethnic Albanians in Kosovo and the denial of fundamental freedoms to them."²⁰ By 1993, the CSCE was calling for "immediate preventive action" by the international community in Kosovo.²¹ By 1997, the OSCE was becoming more aggressive in its criticism towards Belgrade's actions in Kosovo. Foreign Minister Max van der Stoep as Personal Representative of the Chairman-in-Office for Kosovo issued his first public statement: "The brutal way in which the police dispersed a peaceful student demonstration in Kosovo yesterday gives rise to deep concern. The police actions have led to a further escalation of tensions, which could have been avoided."²²

The United Nations began monitoring the human rights situation in Kosovo in 1992.²³ In 1993, when the CSCE was forced out of the FRY, the U.N. Security Council adopted a resolution calling for the return of the CSCE to Pristina.²⁴ In 1997, the U.N. General Assembly expressed concerns "about all violations of human rights and fundamental freedoms in Kosovo, in particular the repression of the ethnic Albanian population and discrimination against it."²⁵ In January 1998, U.N. High Commissioner for Human Rights, Mary Robinson, reiterated her deep concern on the recent increase of violence in Kosovo.²⁶ Later, she expressed her exasperation with the situation in Kosovo by stating, "[w]e keep talking, both at the U.N. and at the international level, about lessons learned—but we don't learn the lessons!"²⁷

17. Robin Cook, British Secretary of State for Foreign and Commonwealth Affairs, Statements Before the Select Committee on Foreign Affairs, Question 479 (Mar. 16, 2000), available at <http://www.fas.org/man/dod-101/ops/2000/2802/0031613.htm> [hereinafter Cook Statement].

18. The summit meeting of the Balkan leaders held on Crete on November 3–4, 1997, as reported by RFE/RL PRAGUE (Nov. 6, 1997), available at <http://www.rferl.org/newsline/1997/11/061197.html>.

19. *On the State of Affairs in Kosovo and Metohija*, CSCE/91-07-A.doc/3.

20. *Eleventh CSO Meeting*, Helsinki, May 18–21, 1992.

21. *The Challenges of Change*, CSCE Helsinki Summit, July 10, 1992.

22. Max van der Stoep, Statement at The Hague (Dec. 31, 1997).

23. See G.A. Res. 111, U.N. GAOR, 51st Sess., U.N. Doc. A/RES/51/111 (1997); G.A. Res. 190, U.N. GAOR, 50th Sess., U.N. Doc. A/RES/50/190 (1995); G.A. Res. 204, U.N. GAOR, 49th Sess., U.N. Doc. A/RES/49/204 (1994); G.A. Res. 18, U.N. GAOR, 48th Sess., U.N. Doc. A/RES/48/18 (1993); and G.A. Res. 147, U.N. GAOR, 47th Sess., U.N. Doc. A/RES/47/147 (1992).

24. S.C. Res. 855, U.N. SCOR, 50th Sess., U.N. Doc. S/855 (1993).

25. G.A. Res. 139, U.N. GAOR 3rd Comm., 52nd Sess., U.N. Doc. A/C.3/RES/52/139 (1997).

26. Kosovo Daily Report #1365, *UN Human Rights Chief Urges Action on Kosovo* (Mar. 8, 1998), at <http://www.hri.org/news/balkans/kosova/1998/98-03-08.ksv.html>.

27. *Id.*

On March 31, 1998, the U.N. Security Council passed Resolution 1160, imposing an arms embargo on both the FRY and the Kosovo Liberation Army (KLA), and calling for autonomy with "meaningful self administration."²⁸ On September 23, 1998, the Security Council passed Resolution 1199, which called for Yugoslav Forces to be withdrawn from Kosovo.²⁹ On October 24, 1998, the Council passed Resolution 1203, which affirmed support for OSCE-Kosovo Verification Mission (OSCE-KVM) deployment and Yugoslav troop withdrawals.³⁰ On November 17, 1998, Resolution 1207 was passed, which demanded that Yugoslavia comply with the requests of the International Criminal Tribunal of the Former Yugoslavia (ICTY), including the arrest of several individuals indicted for war crimes³¹ during the Bosnian conflict.

Throughout this early period, the Council of Europe was an important voice for states in the region, each of which, except Bosnia-Herzegovina, was a Council member. In 1996, the Council's Parliamentary Assembly adopted Resolution 1077, which deplored "the ethnic persecution and discrimination, which appear to be directed mainly at those Kosovar Albanians engaged in passive resistance to the Serb authorities."³² The resolution noted that approximately 340,700 Kosovar Albanians had sought asylum in several Council of Europe member states.³³ By January 1998, the Council was warning of a potential catastrophe caused by Belgrade's continued repression of ethnic Albanians in Kosovo. The stability of the entire Balkan region was at risk. The Council again condemned Belgrade's actions and called for the immediate restoration of human rights and freedoms for the Kosovar Albanians.³⁴

In September 1997, the Contact Group³⁵ called for dialogue between the Kosovo resistance and the Belgrade government and voiced concern over the violence in Kosovo.³⁶ On March 9, 1998, in response to the Drenica massacre, the Group called for stronger measures, including implementation of an arms embargo against FRY and a ban on transfers of equipment that could be used for suppressing the Kosovar Albanians.³⁷ The Group's statement formed the basis of Security Council Resolution 1160. By April 1998, the Contact Group put into effect a freeze on FRY funds held abroad.³⁸

The United States took a particularly aggressive position regarding Kosovo. After a visit to Kosovo in 1991, then-Senator Robert Dole pushed for the creation of a U.S. Information

28. S.C. Res. 1160, U.N. SCOR, 55th Sess., U.N. Doc. S/1160 (1998).

29. S.C. Res. 1199, U.N. SCOR, 55th Sess., U.N. Doc. S/1199 (1998).

30. S.C. Res. 1203, U.N. SCOR, 55th Sess., U.N. Doc. S/1203 (1998).

31. S.C. Res. 1207, U.N. SCOR, 55th Sess., U.N. Doc. S/1207 (1998).

32. *On Albanian Asylum-Seekers from Kosovo*, Resolution 1077, EUR. PARL. ASS., ¶ 2 (Jan. 24, 1996), at <http://www.stars.coe.fr/ta/ta996/ERES1077.htm>.

33. *Id.* ¶ 3.

34. *Recent Developments in the Federal Republic of Yugoslavia and Their Implications for the Balkan Region*, Resolution 1146, EUR. PARL. ASS. (Jan. 29, 1998), at <http://www.stars.coe.fr/ta/ta98/ERES1146.htm>.

35. The Contact Group, initially constituted to deal with Bosnia, was composed of the Foreign Ministers of France, Germany, Italy, Russia, the United Kingdom, and the United States. The group played an increasingly important role as the crisis developed.

36. See OFFICE OF THE HIGH REPRESENTATIVE, BOSNIA CONTACT GROUP STATEMENT ON KOSOVO (Sept. 24, 1997), at <http://www.ohr.int/docu/d9709044.htm>.

37. See OFFICE OF THE HIGH REPRESENTATIVE, LONDON CONTACT GROUP MEETING STATEMENT ON KOSOVO (Mar. 9, 1998), at http://secretary.state.gov/www/travels/980309_kosovo.html.

38. See OFFICE OF THE HIGH REPRESENTATIVE, CONTACT GROUP JOINT STATEMENT: KOSOVO ¶ 8 (June 12, 1998), at http://www.library.utoronto.ca/g7/foreign/fm980612_2.htm.

Agency (USID) office in Pristina. He described Kosovo as a “tinderbox.” On December 27, 1992, reports of a crackdown by Belgrade against Kosovo resulted in then-President George Bush’s “Christmas Warning” to Milosevic threatening unilateral air strikes against Serbia if Belgrade proceeded with its plans. Madeleine Albright, then-U.S. representative to the United Nations, reiterated this warning to the U.N. Security Council on August 9, 1993: “President Bush’s message was specific and clear: we are prepared to respond against Serbia in the event of a conflict in Kosovo caused by Serbian action.”³⁹ On July 11, 1995, the U.S. House of Representatives passed a bill preventing the lifting of sanctions against Belgrade until the excessive Serbian control over Kosovo ended.⁴⁰

As early as 1992, the European Union publicly expressed its concern over the deteriorating situation in Kosovo. In its Lisbon Declaration, the European Council stated: “[w]ith regard to Kosovo, the European Council expects the Serbian leadership to refrain from further repression and to engage in serious dialogue with representatives of this territory.”⁴¹ In a more aggressive statement, the Council affirmed in December 1992 that “[t]he autonomy of Kosovo within Serbia must be restored.”⁴² Because of Belgrade’s continued oppressive policies against Kosovo, the Council, in 1995, called upon the FRY to grant “extensive autonomy” to Kosovo.⁴³

Meanwhile, the European Parliament included Kosovo on its agenda as early as 1990. In 1992, the Parliament issued a statement expressing concern over the human rights situation in Kosovo.⁴⁴ An even stronger statement was issued on June 11, 1992, when the Parliament stated that “the continuing oppression of the Albanian population of Kosovo is unacceptable and constitutes an obstacle to normal relations between Serbia and the [EU].”⁴⁵ On March 13, 1997, the Parliament issued a statement “[c]ondemn[ing] the continuous repression in Kosovo, [and] urg[ing] the Serbian authorities to release all political prisoners, to guarantee the freedom of the media, and to start negotiations with representatives of the people of Kosovo on the future of the region.”⁴⁶ As with other organizations, the Parliament reacted swiftly to Serbia’s actions against nonviolent demonstrations in Pristina in October 1997 by condemning “the violent actions of the Serbian police force against peaceful demonstrations in the Kosovo region.”⁴⁷

By early 1998, the international media—including *The New York Times*, *The Washington Post*, *The Chicago Tribune*, *The Financial Times*, *Le Figaro*, *La Stampa*, *Aktuert*, *The Scotsman*, *Le Monde*, and *Frankfurter Allgemeine*—were also predicting dire consequences for neighboring states, which soon would be engulfed by the fallout.⁴⁸ In January 1998, *The Economist* depicted Kosovo as “the grimmest spot in Europe, the crucible, some fear, of its next war.”⁴⁹

39. U.N. SCOR, 50th Session, 3662d mtg. at 1, U.N. Doc. S/PV.3662 (1993).

40. H.R. 1868, 104th Cong. (1st Sess. 1995).

41. EUROPEAN COUNCIL DECLARATION ON THE FORMER YUGOSLAVIA, BULLETIN EC 6-1992, 1.32.

42. EUROPEAN COUNCIL DECLARATION ON THE FORMER YUGOSLAVIA, BULLETIN EC 12-1992, 1.85.

43. EUROPEAN COUNCIL REPORT ON THE PROGRESS ACHIEVED BY THE EUROPEAN UNION IN 1995, BULLETIN EU, 7/8-1996, 2.2.1.

44. European Parliament Resolution on Kosovo, 1990 O.J. (C 284) 129.

45. European Parliament Resolution on Relations Between the European Communities and the Republics of the Former Yugoslavia, 1992 O.J. (C 176) 199.

46. European Parliament Resolution on Kosovo, 1997 O.J. (C 115) 170.

47. European Parliament Resolution on Kosovo, 1997 O.J. (C 339) 157.

48. See Joel Blocker et al., *Commentators Warn of Dangers of Kosovo*, WESTERN PRESS REVIEW (Mar. 9, 1998), at <http://www.rferl.org/nca/features/1998/03/F.RU.980309132833.html>.

49. *Europe’s Roughest Neighborhood*, THE ECONOMIST, Jan. 24, 1998, at 3.

Some Balkan leaders, in particular then-President-Elect Milo Djukanovic of Montenegro, also warned of a looming catastrophe. Djukanovic pointedly charged Belgrade with failure to promote democratization in Kosovo,⁵⁰ stating that Kosovo had long been subject to a repressive police regime controlled by Belgrade, and should therefore receive a "certain degree of autonomy."⁵¹ By 1998, then-President Kiro Gligorov of Macedonia was predicting that Kosovo was on the way toward outright war and that the conflict was certain to affect the stability of Macedonia.⁵² Already he was predicting the possible influx of up to 400,000 refugees,⁵³ and starting to plan for a corridor through Macedonian territory to enable fleeing Kosovar Albanians to reach Albania when war erupted.⁵⁴

NATO broke its silence on Kosovo in late 1997 when it publicly declared: "We confirm that NATO's interest in stability extends beyond Bosnia and Herzegovina to the surrounding region. We share . . . concerns . . . [about] the escalating ethnic tensions in Kosovo and other areas."⁵⁵

On March 5, 1998, NATO issued another stern warning regarding the violence in Kosovo saying that, "[t]he North Atlantic Council is profoundly concerned by the violent incidents which took place in Kosovo the last few days, and in particular the Serbian police's brutal suppression of a peaceful demonstration in Pristina on 2nd March 1998."⁵⁶

Numerous international nongovernmental organizations (NGOs) recognized early that resolving the "Kosovo problem" was a keystone to peace and security in Southeastern Europe.⁵⁷ They predicted that any delay in resolving the escalating crisis in Kosovo would lead to a full-scale war.⁵⁸

As early as November 1993, there were warnings from the NGO community of the type of scenario that played out in Kosovo during 1999. In April 1993, the Minnesota Advocates for Human Rights called upon the U.N. Security Council to provide resources " . . . necessary to document and report on human rights abuses [in Kosovo]."⁵⁹ In that same year the Belgrade-based Humanitarian Law Center started an active program to monitor the human rights situation in Kosovo.⁶⁰ In 1995, the U.S. Council on Foreign Relations called for the immediate ending of "violations of human rights in Kosovo, including police repression, detention of political prisoners, and confiscation of passports."⁶¹

50. See Renate Flottau, *Es Herrscht Angst*, DER SPIEGEL, Mar. 20, 2000, at 154.

51. *Montenegro Calls for Kosovo Autonomy*, RFE/RI NEWSLINE, Feb. 25, 1998, at <http://www.rferl.org/newsline/1998/02/250298.html>.

52. See *Gligorov Warns on Kosovo*, RFE/RL NEWSLINE, Jan. 22, 1998, at <http://www.rferl.org/newsline/1998/01/220198.html>.

53. See Memorandum to Mark Ellis from Ljubica Z. Acevska, Macedonian Ambassador to the United States (Dec. 20, 1999) (on file with author) [hereinafter Acevska Memo].

54. See *id.*

55. *Final Communiqué of the Ministerial Meeting of the North Atlantic Council Held at NATO Headquarters*, NATO Press Release M-NAC-2 (97) 155, (Dec. 16, 1997), at <http://www.nato.int/docu/pr/1997/p97-155e.htm>.

56. *Council Statement on the Situation in Kosovo*, NATO Press Release (98) 29, (Mar. 5, 1998).

57. ASPEN INSTITUTE BERLIN, INTERNATIONAL CALL FOR ACTION STUDY GROUP: THE FUTURE OF THE BALKANS 63 (1998).

58. See *id.*

59. MINNESOTA ADVOCATES FOR HUMAN RIGHTS, THE MINNESOTA PLAN: RECOMMENDATIONS FOR PREVENTING GROSS HUMAN RIGHTS VIOLATIONS IN KOSOVO (1993).

60. Discussion with Nataša Kandic, Director of the Humanitarian Law Center.

61. CENTER FOR PREVENTIVE ACTION, TOWARDS COMPREHENSIVE PEACE IN SOUTHEAST EUROPE: CONFLICT PREVENTION IN THE SOUTH BALKANS (Barnett R. Rubin ed.) (1996).

In 1996, the Carnegie Endowment for International Peace predicted that the "present dynamics [in Kosovo] point to the violent breakup of rump-Yugoslavia."⁶² A report prepared by the European Action Council for Peace in the Balkans stated that "[n]eglecting a resolution of the Kosovo crisis dangerously risks a conflagration that might spread beyond Kosovo's borders. Escalation of the crisis could have severe consequences for regional and European security and stability."⁶³ The report urged a "strong and united" action by the international community to take place as a process that would lead to a peaceful and permanent settlement of the crisis.⁶⁴

Allegations of atrocities committed against the Kosovar Albanians began to appear in 1993. "The Kosovo Albanians now suffer severe repression and maltreatment by Serbian security forces, with systematic human rights violations, intimidation, and police terror occurring on a daily basis."⁶⁵ Also issued were statements warning that the spread of the crisis to other countries would precipitate a refugee crisis that would "tax the resources of Western Europe" and "could therefore have severe consequences for regional and European security and stability."⁶⁶

During this period, the International Crisis Group was accounting for atrocities committed in Kosovo and issuing strong warnings to the international community.⁶⁷

In 1998, the Aspen Institute called for the immediate restoration of full civil, political, and human rights of the Kosovar Albanians.⁶⁸

Human Rights Watch warned of human rights violations in Kosovo in separate reports in 1993,⁶⁹ 1994,⁷⁰ 1996,⁷¹ and 1998.⁷² In January 1998, the International Helsinki Federation for Human Rights released a statement, reporting on the numerous stories of "preparations by Serbian military and police forces . . . apparently aimed at intimidating the Albanian population, and in preparation for a large-scale military crackdown."⁷³ Additionally, the report warned that the "[n]otorious Serb paramilitary leader 'Arkan' " was observed in the area and that Serb citizens were being armed.⁷⁴

62. TINDEMANS, *supra* note 10, at 117.

63. EUROPEAN ACTION COUNCIL FOR PEACE IN THE BALKANS, KOSOVO: FROM CRISIS TO A PERMANENT SOLUTION (1997), at <http://www.ceip.org/programs/law/kosovo.htm> [hereinafter EUROPEAN ACTION].

64. *Id.*

65. *Id.*

66. *Id.*

67. "[O]f the 2,263 cases of 'human rights violations' in the period from July to September 1997, they cite three murders, three 'discriminations based on language', and 149 'routine checkings.' By collating minor and major offences under the same headings, the statistics fail to give a fair representation of the situation." INTERNATIONAL CRISIS GROUP, KOSOVO SPRING REPORT (1998).

68. See ASPEN INSTITUTE BERLIN, *supra* note 57.

69. HUMAN RIGHTS WATCH, OPEN WOUNDS: HUMAN RIGHTS ABUSES IN KOSOVO (1993).

70. HUMAN RIGHTS WATCH, HUMAN RIGHTS ABUSES OF NON-SERBS IN KOSOVO, SANDZAK, AND VOJVODINA (1994).

71. HUMAN RIGHTS WATCH, HUMAN RIGHTS VIOLATIONS IN KOSOVO (1996).

72. HUMAN RIGHTS WATCH, FEDERAL REPUBLIC OF YUGOSLAVIA: HUMANITARIAN LAW VIOLATIONS IN KOSOVO (1998); see also HUMAN RIGHTS WATCH, FEDERAL REPUBLIC OF YUGOSLAVIA: DETENTIONS AND ABUSE IN KOSOVO (1998).

73. INTERNATIONAL HELSINKI FEDERATION FOR HUMAN RIGHTS, KOSOVO: URGENT APPEAL FOR COURAGE, LEADERSHIP, AND COOPERATION (1998), available at <http://www.ihf-hr.org/appeals/980121.htm>.

74. *Id.*

IV. Effects of the Kosovo Crisis on Southeastern Europe

A. THE REFUGEE CRISIS

The flight of refugees out of Kosovo resulted from escalated violence in the region that began a full year before the NATO military campaign. Human rights violations, and not NATO bombing, caused the mass exodus from Kosovo.⁷⁵ The vast majority of refugees had been systematically and forcibly displaced from municipalities throughout Kosovo by Serbian police and paramilitary groups.⁷⁶ As early as 1998, forces of the FRY initiated a campaign of terror against Kosovar Albanians, shelling towns and villages, destroying property, and forcibly expelling Kosovar Albanians from certain areas. The United Nations estimates that by mid-October 1998, almost 300,000 persons (nearly eighteen percent of the population) had been internally displaced within Kosovo or had left the province.⁷⁷ By March 23, 1999, there were already 210,000 displaced persons inside Kosovo, driven to the mountains and forests by the Serb offensive;⁷⁸ more than 70,000 refugees had fled to safety in neighboring countries.⁷⁹

Based on a survey of Kosovar Albanian refugees conducted in Albania and Macedonia between April 19 and May 3, 1999, Physicians for Human Rights concluded that the refugees fled Kosovo for two reasons: (1) they were forcibly expelled by Yugoslav military or paramilitary forces, or (2) they were *afraid* of these same military forces.⁸⁰ Not one of the 1,180 refugees interviewed stated that they fled because of NATO bombing.⁸¹ Other major NGOs similarly concluded that the overwhelming majority of Kosovar Albanian refugees were forced from their homes, villages, and towns by Serbian military or paramilitary forces.⁸²

All in all, between March 23 and June 9, 1999, approximately 863,000 Kosovar Albanians were forcefully expelled from Kosovo.⁸³ They represented forty-four percent of the total population of Kosovo (1,956,000) and fifty-four percent of the Kosovo Albanian population (1,603,920).⁸⁴ The vast majority of these refugees—783,000—found sanctuary in neigh-

75. See UNITED NATIONS HIGH COMMISSIONER FOR HUMAN RIGHTS, REPORT OF THE HIGH COMMISSIONER FOR HUMAN RIGHTS ON THE SITUATION OF HUMAN RIGHTS IN KOSOVO, FEDERAL REPUBLIC OF YUGOSLAVIA, ¶ 7 (1999) [hereinafter UNHCHR REPORT].

76. *Id.* ¶ 9.

77. *Report of the Secretary-General Prepared Pursuant to Resolutions 1160 (1998), 1199 (1998) and 1203 (1998) of the Security Council*, U.N. SCOR, ¶ 20 U.N. Doc. S/1998/1068 (1998).

78. Cook Statement, *supra* note 17, at question 384.

79. *Id.*

80. PHYSICIANS FOR HUMAN RIGHTS, WAR CRIMES IN KOSOVO: A POPULATION-BASED ASSESSMENT OF HUMAN RIGHTS VIOLATIONS AGAINST KOSOVAR ALBANIANS (1999).

81. *Id.* See also UNHCHR REPORT, *supra* note 75, ¶ 7 ("Out of 273 refugees interviewed, only 1 reportedly left his village out of fear of NATO bombs.")

82. See HUMAN RIGHTS WATCH, A VILLAGE DESTROYED: WAR CRIMES IN KOSOVO (1999); HUMAN RIGHTS WATCH, "ETHNIC CLEANSING" IN THE GLOGOVAC MUNICIPALITY (1999); see also ORGANIZATION FOR SECURITY AND COOPERATION IN EUROPE, KOSOVO/KOSOVA: AS SEEN, AS TOLD, AN ANALYSIS OF THE HUMAN RIGHTS FINDINGS OF THE OSCE KOSOVO VERIFICATION MISSION (1999), available at <http://www.osce.org/kosovo/reports/hr/part1/index.htm> [hereinafter OSCE REPORT].

83. See INTERNATIONAL MONETARY FUND, THE ECONOMIC PROSPECTS FOR THE COUNTRIES OF SOUTH EASTERN EUROPE IN THE AFTERMATH OF THE KOSOVO CRISIS (1999) [hereinafter IMF REPORT SEPT. 1999].

84. *Id.*

boring countries,⁸⁵ primarily in Albania and Macedonia. Despite the fact that these countries were relatively poor and undergoing economic reform,⁸⁶ they faced the added burden of supporting vast refugee populations. The influx of these new arrivals put tremendous strain on these countries' economies and infrastructure while threatening further political destabilization in the region.⁸⁷ Although the international community covered the bulk of the cost of humanitarian aid, significant expenditures by these neighboring countries placed additional pressure on their already weak fiscal structures.⁸⁸

When NATO air strikes began on March 24, 1999, the magnitude of the refugee crisis grew at a staggering rate, overwhelming both the international community and the neighboring countries.⁸⁹ While it has been firmly established that human rights abuses, not NATO bombing, caused the mass exodus, none of the major Western European countries anticipated the scale of displacement.

As one ambassador stated, "The response to the crisis was simply too little and too late."⁹⁰ None of the major Western European countries anticipated the scale of displacement.⁹¹ Still if the West had foreseen that a half-million people would pour out of Kosovo, it is unlikely that neighboring countries would have been up to the task of providing shelter.⁹² In fact, the numbers were so large during the first two weeks of the exodus that the neighboring countries were left stunned and struggling to cope.

Regionally, the refugee crisis had a particularly debilitating effect on Albania and Macedonia. These two countries bore the brunt of the exodus, managing total refugee populations of more than 700,000 at the height of the crisis.⁹³ Bosnia-Herzegovina had a total influx of over 105,000 refugees from both Kosovo and the FR Yugoslavia.⁹⁴ Other countries in the region were generally spared the burden of sheltering large numbers of refugees. For instance, Bulgaria officially registered 317 refugees who were granted temporary (six months) asylum.⁹⁵ Croatia accepted 2,300 refugees, of which 1,200 were ethnic Albanians.⁹⁶ Expenditures in Croatia "for refugees and others affected by civil war," as a percent of GDP, decreased from 0.7 percent in 1998 to 0.4 percent in 1999.⁹⁷

85. *Id.*

86. See IMF REPORT SEPT. 1999, *supra* note 83; Acevska Memo, *supra* note 53; see also EMERGENCY MANAGEMENT GROUP, REHABILITATION OF IMPACTS OF THE KOSOVO REFUGEE EMERGENCY: EMG PLAN FOR COORDINATION (1999), available at <http://mininf.gov.al/english/Kosovo/speciale/info/9907/REHAB31.html> [hereinafter EMG PLAN].

87. Acevska Memo, *supra* note 53.

88. See EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT, TRANSITION REPORT 1999, 83 (1999) [hereinafter EBRD REPORT].

89. See UNITED NATIONS HIGH COMMISSIONER ON REFUGEES, UNHCR EVALUATION AND POLICY ANALYSIS—THE KOSOVO REFUGEE CRISIS ¶ 29 (2000) [hereinafter UNHCR EVALUATION AND POLICY ANALYSIS].

90. Comment by Macedonian Ambassador to the United States, Ljubica Z. Acevska to the author.

91. See Cook Statement, *supra* note 17, at question 386.

92. *Id.*

93. See INTERNATIONAL COMMITTEE ON THE RED CROSS, CRISIS IN THE BALKANS SITUATION REPORT No. 42, available at <http://www.icrc.org/irceng.nsf/5cacfd48ca698b641256242003b3295?ec0bdc1546181e694125679000452998> (last modified Aug. 7, 1999).

94. See UNHCR, 1999 MID-YEAR PROGRESS REPORT—BOSNIA-HERZEGOVINA, at <http://www.unhcr.ch/fdrs/my99/bih.htm> (last visited July 7, 2000).

95. See KRASSEN STANCHEV, YUGOSLAV WAR ECONOMIC IMPACTS: BULGARIA 3 (1999) [hereinafter STANCHEV REPORT].

96. See UNHCR, 1999 MID-YEAR PROGRESS REPORT—CROATIA, at <http://www.unhcr.ch/fdrs/my99/hrv.htm> (last visited July 7, 2000).

97. IMF STAFF COUNTRY REPORT, REPUBLIC OF CROATIA: SELECTED ISSUES AND STATISTICAL APPENDIX 24 (2000) [hereinafter CROATIA STAFF REPORT].

For Albania, the influx of refugees was the most significant and immediate consequence of the conflict. The flow of refugees commenced in the third week of March and steadily increased through June 1999.⁹⁸ In the first phase of mass exodus from Kosovo (March 24 through April 6, 1999), refugees came by way of three main Albanian border crossings: Trepça, Krinë, and Morina. A total of 236,000 refugees filed into Albania during this time.⁹⁹ It is not surprising that most of the refugees into Albania came from those Kosovo municipalities nearest to the Kosovo/Albanian border: Pec, Decani, Djakovica, Orahovac, Suva Reka, Prizren, and Gora.¹⁰⁰

During the second phase of mass exodus (April 7 through April 23, 1999), refugees entered Albania primarily through the Kosovo/Albanian border crossing at Morina.¹⁰¹ By June 1999, the number of Kosovo refugees in Albania reached 444,200,¹⁰² the equivalent of fourteen percent of Albania's own population.

From the start of the conflict, Albania maintained an open-door policy toward the Kosovar refugees. Yet the massive number of refugees admitted strained public services, diminished supplies, and put pressure on facilities used to house and service them, causing significant damage to the country's infrastructure.¹⁰³ Of the Kosovar refugees in Albania, 300,000 were put up by families, 83,000 lived in tented camps, and 95,000 lived in collective centers throughout the country.¹⁰⁴

Macedonia followed a similar pattern, with almost 250,000 refugees flooding into the country between March 23 and June 9, 1999.¹⁰⁵ The number of refugees in Macedonia was approximately eighteen percent of the country's total population.

In addition to the economic strain it imposed, the influx of Kosovar Albanians threatened to upset Macedonia's already tense balance of ethnic Slavs and ethnic Albanians, and thus raised serious questions about national security and stability.¹⁰⁶ The crisis began shortly after a new government had been formed in Skopje, which included extreme nationalist elements among both ethnic groups. To compound the situation, it was unclear whether the refugees would be able to return to Kosovo, particularly if the NATO mission failed. Macedonian Slavs feared a "demographic time bomb" and a possible partition of Kosovo, which, in turn, would have created a precedent for a similar dissolution for Macedonia.¹⁰⁷ The country's reluctance to take in refugees was shown during the first days of the Kosovo crisis, when tens of thousands of Kosovars were prevented from crossing the border into

98. *See id.* at 99.

99. *See* PATRICK BALL, AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF SCIENCE, POLICY OR PANIC? THE FLIGHT OF ETHNIC ALBANIANS FROM KOSOVO, MARCH–MAY 1999, 31 (2000) [hereinafter AAAS REPORT].

100. *See id.* at 14.

101. *See id.* at 64.

102. *See* OSCE REPORT, *supra* note 82, at 99.

103. *See* EMG PLAN, *supra* note 86.

104. *See id.* There were approximately 400 collective centers in Albania during the Kosovo crisis, and even today, the cost to repair these sites is expected to be between \$400,000 and \$800,000. The estimated cost of repairing the land used for the refugee camps varies from \$45,000 (for the Spitalle camp) to \$250,000 (for the Hamallaj camp). Repairs will also continue on Rinas Airport and the roads within Albania.

105. *See* OSCE REPORT, *supra* note 82, at 99. Discussion with the Macedonian Ambassador to the United States places the figure at over 360,000. *See* Acevska Memo, *supra* note 53.

106. According to all sources, ethnic Albanians represent roughly one quarter of Macedonia's total population.

107. *See* JACQUES RUPNIK, KOSOVO: THE REGIONAL DIMENSION: NOTES FOR THE INTERNATIONAL COMMISSION ON KOSOVO (2000) [hereinafter RUPNIK NOTES].

Macedonia. After considerable negative publicity relating to this episode, Macedonia opened its border to the waiting refugees.¹⁰⁸

With substantial aid from the international community, the Macedonian government ultimately erected seven major refugee camps.¹⁰⁹ There was an initial delay in the financial support from relief agencies, which forced the Macedonian government to provide shelter and support to the refugees.¹¹⁰ According to government officials, Macedonia spent over \$600 million, approximately 3.3 percent of GDP, on refugee-related expenditures. Much of this cost, however, was recovered from the international community.¹¹¹

In April 1999, at the height of the Kosovo crisis, Montenegro had over 74,000 refugees from Kosovo.¹¹² At the end of the NATO campaign, large numbers of refugees, particularly Kosovo Serbs and Gypsies, remained within the borders of Montenegro.

In humanitarian terms, the international response to the refugee crisis was reasonably effective. There were no serious public health consequences, despite the normal risk of epidemic or increased mortality rates during such situations.¹¹³ The mortality rate of the refugees in Macedonia remained below one in 10,000, which is considered an acceptable level during an emergency of this magnitude. Preliminary figures show that the situation was similar in Albania.¹¹⁴

The success in dealing with the refugees can be attributed to the support from the governments of Albania, Macedonia, and Montenegro; international humanitarian aid; and the overall health of the refugees at the outset of the crisis.¹¹⁵ For neighboring countries, the strain of the crisis was somewhat alleviated by the quick end to hostilities and the unexpected return of ninety-five percent of the refugees to Kosovo by late July 1999.¹¹⁶

The Kosovo refugee crisis has, however, had an enduring impact on the Balkan region. The United Nations High Commissioner for Refugees estimates that there are 1,678,500 refugees or internally displaced persons in the Balkans as a result of a decade of upheaval in the Former Yugoslavia.¹¹⁷

B. ECONOMIC IMPACT

The economies of the countries of Southeastern Europe are exceptionally vulnerable to external events. The primary reason for this sensitivity is that the region is plagued by deep structural economic problems, underdeveloped rule of law, absence of the fundamentals of a market economy, and a nascent understanding of and experience with democratic prin-

108. See UNHCR EVALUATION AND POLICY ANALYSIS, *supra* note 89, ¶ 32.

109. Radusa, Senokos, Bojane, Neprosteno, Cegrare, Stenkovec I and Stenkovec II, and Blace.

110. See IMF STAFF COUNTRY REPORT, FORMER YUGOSLAV REPUBLIC OF MACEDONIA: STAFF REPORT FOR THE 2000 ARTICLE IV CONSULTATION 11 (June 2000) [hereinafter MACEDONIA STAFF REPORT].

111. See *id.*

112. See David Dj. Dasic, Text prepared in anticipation of a Kosovo Conference (Dec. 1999) [hereinafter Dasic Memo]; see also OSCE REPORT, *supra* note 82, at 99 (providing a figure of 70,000 refugees as of April 21, 1999).

113. See UNHCR EVALUATION AND POLICY ANALYSIS, *supra* note 89, ¶ 32 n.6.

114. See *id.*

115. See *id.* ¶¶ 31–32.

116. See *id.* ¶ 32; see also EMG PLAN, *supra* note 86.

117. See UNHCR, REFUGEES AND OTHERS OF CONCERN TO UNHCR: STATISTICAL OVERVIEW—FIRST QUARTER 2000 (May 2000), available at <http://www.unhcr.ch/statist/ov00q1/text.htm>. The total for Bosnia-Herzegovina was 871,200 persons, or roughly 22.7 percent of the total estimated population of Bosnia-Herzegovina.

ciples. Domestic policies have generally failed to significantly alter these and other weaknesses. Thus, the Kosovo crisis emerged at a time when the region was already facing arduous problems and political uncertainty, if not outright instability. That said, the region's unremarkable economic performance during the past decade—the failure of each of these countries to expand its private sectors, develop its infrastructure, or attract the level of foreign investment needed to make up its domestic shortfall—suggest that the Kosovo crisis may not have been the reversal of fortune that its governments have been claiming.

1. *Trade*

For most neighboring countries, the most serious economic effect of the Kosovo crisis was the loss of the Yugoslav market for exports.¹¹⁸ When comparing first quarter data from 1998 and 1999, exports for the region did, in fact, decline in Bulgaria (–20.2 percent), Croatia (–10.2 percent), and Romania (–8.4 percent).¹¹⁹ But, Albania's 1999 exports, valued at \$72.9 million, actually increased by an impressive 72.7 percent over the first quarter of 1998.¹²⁰

In terms of volume, however, a detailed analysis of trade patterns indicates that the effect of the Kosovo War on the region's exports was relatively insignificant. There are two main reasons for this assessment.

First, regional exports quickly rebounded from the crisis. All four countries with available 1999 second quarter data experienced an increase in exports over their first quarter totals. In Bulgaria, exports grew by 3.5 percent; in Romania by 3.9 percent; in Croatia by 5.7 percent; and in Albania by 7.5 percent.¹²¹

Second, intraregional trade within Southeastern Europe is relatively insignificant for the majority of the countries in the region. With the exception of Croatia and Macedonia, the core Balkan countries have little economic exchange with other Balkan countries. Rather, more than sixty percent of the region's trade is with the European Union, the Central European Free Trade Agreement (CEFTA), and the European Free Trade Association (EFTA) countries.¹²² Trade statistics for 1998, prior to the crisis, reveal a relatively low level of intraregional trade, suggesting that any effects caused by the Kosovo crisis could not have been as dramatic as first proclaimed.

Of all the countries in Southeastern Europe, Croatia has the largest volume of exports to the region. In 1998, regional trade accounted for 16.1 percent of Croatia's total exports; the majority of this (14.8 percent) with Bosnia-Herzegovina.¹²³ In 1999, exports to Bosnia-Herzegovina plummeted, but this was due primarily to the cancellation of a bilateral free trade agreement with the Federation of Bosnia-Herzegovina in May 1999.¹²⁴ Croatia's imports from the region were less significant at 2.8 percent of total imports.¹²⁵

118. This statement was based on discussions between the author and ambassadors from the various countries to the United States.

119. See INTERNATIONAL MONETARY FUND, *INTERNATIONAL FINANCIAL STATISTICS* 176, 248, and 640 (2000) [hereinafter IFS].

120. See *id.* at 76.

121. See *id.* at 76, 176, 248, and 640.

122. CEFTA is comprised of Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia. EFTA is comprised of Iceland, Liechtenstein, Norway, and Switzerland.

123. See INTERNATIONAL MONETARY FUND, *DIRECTION OF TRADE STATISTICS YEARBOOK 1992–1998*, 178 (1999) [hereinafter IMF *DIRECTION OF TRADE*].

124. See CROATIA STAFF REPORT, *supra* note 97, at 68.

125. See IMF *DIRECTION OF TRADE*, *supra* note 123, at 178.

Percentage-wise, Macedonia's exports to Southeastern Europe—19.1 percent of its total exports in 1998¹²⁶—are the most significant within the region. Before the Kosovo conflict, Macedonia's largest regional export market was the FRY.¹²⁷ Imports from the region—20.4 percent of Macedonia's 1998 total imports—are also the most significant among the region's countries.¹²⁸ Again, the majority of goods and services were imported from the FRY, accounting for 11.4 percent of Macedonia's total imports that year.¹²⁹

Although Macedonia's trade was hit hard by the Kosovo crisis, the end of the hostilities and the influx of aid workers brought unexpected gains in foreign exchange receipts.¹³⁰ Exports to the FRY improved dramatically, nearly doubling the pre-crisis level.¹³¹ Consequently, the overall decline in export receipts in 1999 was only eight percent, significantly less than the projected export fall of twenty-seven percent.¹³² Also, earnings from the service sector increased significantly in the third and fourth quarters of 1999 because Macedonia served as a key transit route for travel to Kosovo.¹³³

Bulgaria's overall trade to the region has always been relatively small.¹³⁴ For instance, in 1998, Bulgaria's exports to Southeastern Europe equaled seven percent of its total exports.¹³⁵ Imports from the region into Bulgaria were only three percent.¹³⁶ Exports to the FRY were only 2.3 percent and imports from the FRY were only 0.8 percent of Bulgaria's total trade in 1998.¹³⁷ In fact, in the three months prior to NATO's air strike, export sales of industrial products had already fallen by twenty-six percent compared to the same period in 1998.¹³⁸

There is an additional reason to suspect that Bulgaria's deteriorating trade deficit was not primarily the result of the Kosovo crisis. Although the trade deficit was 6.6 times higher in the first half of 1999 than it was for the same period in 1998, this fact was anticipated by both the Bulgarian government and the IMF.¹³⁹

Albania's exports to the region were also exceedingly low at only 2.3 percent of its total 1998 exports,¹⁴⁰ while imports from the region stood at 6.3 percent. As for trade with the FRY, Albania's exports were 0.2 percent and imports were 0.1 percent of total trade in 1998.¹⁴¹ The major problems were the loss of reprocessing contracts during the crisis and a disruption in chromium production.¹⁴²

126. *See id.*

127. *See id.* at 306. In 1998 Macedonia exported \$1.2 billion. Of this, \$228 million was directed to Southeastern Europe.

128. *See id.*

129. *See id.*

130. *See* MACEDONIA STAFF REPORT, *supra* note 110, at 5.

131. *See id.*

132. *See id.*

133. *See id.*

134. *See* STANCHEV REPORT, *supra* note 95, at 3.

135. *See id.* Bulgaria's total exports for 1998 were \$4.3 billion. *See* IMF DIRECTION OF TRADE, *supra* note 123, at 144.

136. *See* IMF DIRECTION OF TRADE, *supra* note 123, at 144.

137. *See id.* Bulgaria's total imports were \$183 million. The vast majority of these imports came from Macedonia and Romania.

138. *See* STANCHEV REPORT, *supra* note 95, at 1.

139. *See id.*

140. *See* IMF DIRECTION OF TRADE, *supra* note 123, at 96. Total exports were \$255 million. Exports to the region were \$6 million.

141. *See id.*

142. *See* ALBANIA STAFF REPORT, *supra* note 8, at 10.

In 1998, Romania's exports to Southeastern Europe were three percent of its total exports.¹⁴³ Imports to the region were barely noticeable at one percent. Romania registered no imports and 1.4 percent of exports to the FRY in 1998.¹⁴⁴

Of Bosnia-Herzegovina's trade with Southeastern Europe, 95.8 percent is conducted with Croatia.¹⁴⁵ In 1998, exports to Croatia were 28.6 percent of Bosnia's overall exports,¹⁴⁶ while imports from Croatia were 28.5 percent of Bosnia's total imports.¹⁴⁷

It is no surprise that the FRY was hit hardest by the Kosovo crisis. The Yugoslav economy nearly collapsed. By May 1999, industrial output in the FRY declined by forty-five percent compared to the same period in 1998. This was the lowest monthly output in thirty-five years.¹⁴⁸ Yugoslav economists predict that, in the year 2000, industrial output will decrease by 44.4 percent and GDP will decline by 40.7 percent compared to 1999.¹⁴⁹

Montenegro's status within Southeastern Europe is unique. As a republic of the FRY, Montenegro suffered actual damage as a result of NATO's military intervention.¹⁵⁰ It also lost substantial economic ties with companies in Serbia and Kosovo.

Since 1997, Montenegro's President, Milo Djukanovic, has accelerated democratic reforms and attempted to distance Montenegro from Belgrade policies. As a result, Montenegro has become a bastion of opposition to Belgrade, and to Milosevic in particular. The Montenegrin pro-Western coalition defeated Milosevic supporters in two separate elections in Montenegro in 1997 and 1998. The Kosovo crisis accelerated this movement and there is now a "rampant independence" movement in Montenegro.¹⁵¹ At present, Montenegro's economy is at a critical stage, with a declining GDP, growing unemployment, and a general drop in the standard of living.¹⁵²

Montenegro has also been hard hit by a Serbian-imposed financial blockade. Following the Kosovo crisis, Montenegro adopted a dual currency (the Deutschmark and the Yugoslav Dinar), which brought swift retribution from Belgrade. Montenegro, a long-time importer of Serbian wheat,¹⁵³ suddenly found itself facing a severe crisis. Only with aid from the United States did Montenegro avert a crisis.¹⁵⁴

Aggravating these problems, Montenegro has not been eligible for any macro-financial assistance because it does not have the status of an independent state.¹⁵⁵ The IMF, according

143. See IMF DIRECTION OF TRADE, *supra* note 123, at 387.

144. See *id.*

145. See *id.*

146. See *id.* at 138.

147. See *id.*

148. See HELSINKI COMMITTEE FOR HUMAN RIGHTS IN SERBIA, REPORT ON THE STATE OF HUMAN RIGHTS IN SERBIA IN 1999, at <http://www.helsinki.org.yu/god/egod99.htm>.

149. See *id.*

150. Air strikes damaged the Podgorica airport, destroyed the Lim River Bridge and surrounding houses and installations in the small town of Murina, and killed several civilians. In addition, military facilities located in Montenegro were destroyed. The steel mill "Niksic," Montenegro's second largest company, suffered damages of approximately \$10 million. See Memoranda from Dr. David Dj. Dasic, Head of Montenegro's Trade Mission to the U.S. to Mark Ellis (Nov. 19, 1999) (on file with author).

151. See RUPNIK NOTES, *supra* note 107.

152. See *id.*

153. See SERBIA'S GRAIN TRADE: MILOSEVIC'S HIDDEN CASH CROP 21 (May 2000) [hereinafter ICG GRAIN REPORT].

154. See *id.* Under the U.S. Presidential Wheat Initiative, the U.S. Department of Agriculture provided 50,000 tons of maize and wheat to Montenegro in March 2000.

155. See Media Club, *We Cannot Help as Long as You Are Not an Independent State* (Feb. 29, 2000), at <http://www.medijaklub.cg.yu/eng/news/archive/2000Februar/29.htm>.

to its charter, can assist only countries, not provinces.¹⁵⁶ Until recently, the Ministers of the EU refused to provide Montenegro with any financial aid, other than humanitarian assistance. This appears to be changing. Commenting on a \$100 million pledge in direct financial aid, Chris Patten, EU Foreign Affairs Commissioner, said that while the money was not intended to directly enhance the government, it was "support for [a] government that believes in elections."¹⁵⁷ Montenegro will also receive support from the United States in the amount of \$55 million.¹⁵⁸

2. *Gross Domestic Product (GDP)*

Real growth in the region's gross domestic product (GDP), already dismally low, declined 0.9 percent in 1998.¹⁵⁹ Today, the GDP for the region is the lowest in all of Europe.¹⁶⁰ For example, the combined GDP of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, and Romania is equivalent to that of the city of Hamburg.¹⁶¹

The European Bank for Reconstruction and Development (EBRD) reports that GDP for the region fell from 0.3 percent before the Kosovo crisis to -1.1 percent in August 1999.¹⁶² The total GDP for the region fell from \$82.6 billion in 1998 to an estimated \$73.9 billion in 1999.¹⁶³ The International Monetary Fund (IMF) estimates that the Kosovo crisis reduced output for the countries of Southeastern Europe by approximately two percent. Growth for 1999 is estimated to have been -1 percent for the region.¹⁶⁴

However, some individual countries fared better than the average. Albania's GDP increased by 7.25 percent in 1999 over the previous year.¹⁶⁵ This was a direct result of increased demand, particularly in the areas of transportation and services, which grew by ten percent over 1998 as a result of the crisis.¹⁶⁶ And even though the Kosovo-related reconstruction costs accounted for four percent of the GDP in 1999, international donors financed most of these costs.¹⁶⁷

In Macedonia, the Kosovo crisis disrupted what was already a difficult transition to a market-based economy. Nevertheless, the damage was less severe than initially predicted.¹⁶⁸ The government was able to maintain the fiscal discipline obtained over the previous several years.¹⁶⁹ In fact, the post-crisis period in Kosovo resulted in a sharp increase in economic activity for Macedonia.¹⁷⁰ Real GDP grew, inflation eased, and foreign exchange reserves increased substantially.¹⁷¹ By June 1999, the economy improved significantly and the balance

156. See Cook Statement, *supra* note 17, at question 490.

157. *Montenegro to Get 55 Million Euros*, May 15, 2000, at <http://www.montenegro.com/en/arc4-2000.htm>.

158. See Anne Swardson, *Montenegro Seen as a Beacon of Hope, Reform-Minded Ally a Model for Balkans*, WASH. POST, May 24, 2000, at A25.

159. See IMF REPORT SEPT. 1999, *supra* note 83, at table 1.

160. See *id.* ¶ 3.

161. See RUPNIK NOTES, *supra* note 107.

162. See EBRD REPORT, *supra* note 88, at 83.

163. See IMF REPORT SEPT. 1999, *supra* note 83, at table 1.

164. See *id.* ¶ 3.

165. See ALBANIA STAFF REPORT, *supra* note 8, at 6.

166. See *id.*

167. See *id.* at 10.

168. See MACEDONIA STAFF REPORT, *supra* note 110, at 5.

169. See J. de Beaufort Wijnholds, Statement by the Executive Director for Former Yugoslav Republic of Macedonia (May 10, 2000), in MACEDONIA STAFF REPORT, *supra* note 110.

170. See MACEDONIA STAFF REPORT, *supra* note 110, at 26.

171. See *id.*

of payments improved beyond expectations.¹⁷² This improvement led to an increase in GDP by 2.7 percent for 1999.¹⁷³ The service sector suffered little during the Kosovo crisis and industrial output losses were quickly recaptured after the end of the crisis.¹⁷⁴

The IMF projects the average growth rate for the region to be approximately three percent for 2000.¹⁷⁵ Although that rate will be too low to compensate for the slow performance prior to the Kosovo crisis, it does indicate an overall positive recovery. However, to meet even this modest projection, the region will need \$850 million in external financing over and beyond current commitments from bilateral creditors and multinational financial institutions.¹⁷⁶

3. *Balance of Payments*

During 1999, the countries of Southeastern Europe were also faced with additional financing requirements as a result of the Kosovo crisis. The total gap in balance of payments for countries in the region, including costs directly relating to the Kosovo crisis, totaled approximately \$2.4 billion.¹⁷⁷ As with performance in GDP, the gap in balance of payments varies among the six countries.¹⁷⁸

The largest balance of payment gap for 1999 falls on Romania (\$861 million) and Bulgaria (\$511 million). Croatia (\$350 million) and Bosnia-Herzegovina (\$268 million) fall somewhere in the middle range, while Macedonia (\$193 million) and Albania (\$169 million) have the smallest balance of payment gap. To begin closing these financing gaps, the EU and the World Bank sponsored country-specific donor meetings during April and May 1999 for Albania, Bosnia-Herzegovina, Bulgaria, and Macedonia. To cover the gap in 2000, however, the region will need an estimated \$869 million in additional financing.¹⁷⁹

Albania poses a particular challenge. In the period just prior to the Kosovo crisis, Albania experienced a tremendous social and economic disruption following the collapse of a widespread pyramid scheme in early 1997.¹⁸⁰ During this period, "GDP declined by more than 7 percent and inflation rose sharply to 42 percent."¹⁸¹ To rectify the situation, the Albanian government focused its attention on important issues related to structural reform and macroeconomic performance. Though highly successful, these reforms were interrupted in September 1998 when civil disturbances resulted in a change in government.¹⁸² The new government continued the reforms and maintained a tight monetary policy. While inflation was reduced to 8.7 percent, the account deficit dropped from twelve percent of GDP in 1997 to six percent of GDP in 1998.¹⁸³

172. *See id.*

173. *See id.*

174. *See id.*

175. IMF REPORT SEPT. 1999, *supra* note 83, ¶ 20.

176. *See id.* ¶ 21.

177. *See id.* at table 2.

178. *See id.*

179. *See id.*

180. This scheme, like many others in Central and Eastern Europe, promised high returns to those that invested their money. With average wages so low, roughly one-sixth of all Albanians had invested in this scheme. The resulting collapse, coupled with the government's unwillingness to bail out the scheme, created protests and looting in the streets of Tirana.

181. EUROPE AND CENTRAL ASIA REGION OF THE WORLD BANK, ALBANIA: THE ECONOMIC IMPACT OF THE KOSOVO CRISIS ¶ 2 (1999) [hereinafter WB ALBANIA].

182. *See id.* ¶¶ 3-4.

183. *See id.* at table 1.

In early 1999, macroeconomic stability had been restored to Albania, but the Kosovo crisis brought new challenges. Although the international community eventually assumed the financial burden of the refugees, the initial influx forced the Albanian government to divert financial resources to assist them, creating an even more significant budgetary gap.¹⁸⁴ Between 1998 and 1999, the budget gap increased from 10.4 percent to 13.8 percent of GDP.¹⁸⁵ As a result, nearly the entire budgetary gap for 1999 (\$200 million) can be attributed to the Kosovo crisis with funds allocated directly to refugee assistance equal to expenditures for health, education, public order, public works, and local infrastructure.¹⁸⁶

To cover its budgetary gap in 1999, Albania turned to foreign financing, thus raising that portion of its debt from a projected 4.2 percent to 8.3 percent of GDP.¹⁸⁷ Albania received financing from the World Bank's Public Expenditure Support Credit (\$30 million), the first tranche of the Structural Adjustment Credit (\$20 million), deferral of the Paris Club debt-service payments (\$13 million), and an EU budgetary grant (\$65 million).¹⁸⁸

As already discussed, the economic cost of the refugee crisis hit Macedonia especially hard, totaling more than \$660 million.¹⁸⁹ To finance its support of the refugees, the Macedonian government was forced to redirect funds from an already restricted budget. Consequently, structural reforms were slowed. For instance, Macedonian authorities were unable to comply with their commitments to a new IMF-funded Enhanced Structural Adjustment Facility (ESAF).¹⁹⁰ However, Macedonia's pledge "to a number of important policy initiatives, including strengthening expenditure management, enhancing banking supervision, reforming enterprises, and phasing out trade restrictions" led them to receive a \$19 million credit under the IMF's Compensatory and Contingency Financing Facility (CCFF) to offset the effects of the Kosovo crisis.¹⁹¹

4. Current Account Deficit

Both the IMF and the EBRD report that the current account deficit (CAD)¹⁹² decreased for the region as a result of the events in Kosovo.¹⁹³ With the exception of Romania, where the CAD increased from \$321 million to \$491 million, the CAD for countries in South-eastern Europe decreased between the first and second quarters of 1999.¹⁹⁴

In Albania, the influx of nearly half a million refugees, followed by deployment of a substantial NATO military force, the massive influx of Western aid and aid workers, and a

184. See *id.* ¶ 15 and table 4.

185. See EUROPEAN COMMISSION, WORLD BANK AND IMF, THE IMPACT OF THE KOSOVO CONFLICT ON ALBANIA ¶ 5(b) (May 26, 1999) [hereinafter EUROPEAN COMMISSION ON ALBANIA].

186. WB ALBANIA, *supra* note 181, ¶ 9.

187. See *id.* at table 4.

188. See *id.* ¶ 22.

189. See Aleksandar Dimitrov, Address at the EAPC Foreign Ministers Meeting to the East Atlantic Partnership Council (EAPC) (Dec. 16, 1999) (transcript available at <http://www.nato.int/docu/speech/1999/s991216h.htm>).

190. See Press Release, IMF, IMF Approves CCFF Credit for the Former Yugoslav Republic of Macedonia (Aug. 5, 1999), available at <http://www.imf.org/external/np/sec/pr/1999/pr9937.htm>.

191. *Id.*

192. Current account is the value for the net flow of goods, services, and unilateral transactions (gifts) between countries.

193. See IMF REPORT SEPT. 1999, *supra* note 83. Current account balances for the region fell from \$6.3 billion in 1998 to an estimated \$5.9 billion in 1999.

194. See IFS, *supra* note 119.

consequent rise in hard currency purchases, contributed to an actual \$30 million current account surplus in the second quarter of 1999.¹⁹⁵

Starting in March 1999, Bulgaria's stronger-than-expected exporting growth pushed the current account deficit to a surplus by October 1999.¹⁹⁶ Although Bulgaria's exports diminished during the initial stages of the Kosovo crisis, by the end of April 1999 they had recovered.¹⁹⁷

In Croatia, the tourist industry was hardest hit by the Kosovo crisis. During the first eight months of 1999, Croatia experienced a sixteen percent drop in tourism compared to 1998.¹⁹⁸ Losses from tourist expenditures were estimated at \$700–800 million.¹⁹⁹ An additional \$6.6 million in tourist tax revenues were lost and \$9 million was spent to subsidize tour operators.²⁰⁰ Despite these setbacks, the damage was not as great as initially thought.²⁰¹ In fact, the Croatian CAD was reduced by over \$40 million between the first and second quarters of 1999.²⁰² Additionally, the tourist industry is expected to bounce back in the year 2000.

5. Unemployment

Overall, the unemployment rate for Southeastern Europe was not affected by the Kosovo crisis. In Bosnia-Herzegovina, Croatia, Bulgaria, and Romania, unemployment levels remained relatively unchanged or declined. In Albania and Macedonia, fluctuations in the already high unemployment rates are explained by other factors.

Based on a report by the Central Bank of Bosnia-Herzegovina, the Kosovo conflict did not appear to have any significant impact on overall employment in Bosnia-Herzegovina. Between February 18, 1999, and May 31, 1999, the unemployment rate increased only slightly, from 39.07 percent to 39.17 percent.²⁰³

Likewise, in Croatia, the unemployment rate remained steady between 18.0 percent and 19.6 percent during 1999.²⁰⁴ The rate ended up slightly lower by December than it had been in January. As a result, Croatia's expenditures on unemployment benefits, as a percentage of GDP, actually decreased from 0.3 percent in 1998 to 0.2 percent in 1999.²⁰⁵

In Bulgaria, monthly unemployment rates remained steady through August 1999 before beginning a steep rise at the end of the year.²⁰⁶ During 1999, Romania's unemployment rate fluctuated mildly between 10.8 percent and 12.0 percent.²⁰⁷

195. See generally *id.* at 76; INTERNATIONAL CRISIS GROUP, ALBANIA: STATE OF THE NATION, 3 (2000) [hereinafter ICG ALBANIA].

196. See IMF, STAFF COUNTRY REPORT, BULGARIA: SELECTED ISSUES AND STATISTICAL APPENDIX 8 (May 2000) [hereinafter BULGARIA STAFF REPORT].

197. See *id.* at 32.

198. See CROATIA STAFF REPORT, *supra* note 97, at 103.

199. See REPUBLIC OF CROATIA, MINISTRY OF TOURISM, ESTIMATION OF DAMAGES TO CROATIAN TOURISM CAUSED BY THE KOSOVO CRISIS (1999).

200. See *id.*

201. See IMF REPORT SEPT. 1999, *supra* note 83, ¶ 6.

202. See IFS, *supra* note 119, at 248.

203. See CENTRAL BANK OF BOSNIA AND HERZEGOVINA, INDICES OF BASIC ECONOMIC INDICATORS, available at <http://www.cbbh.gov.ba/english/statistics.htm>.

204. See First Release, Data Reports, available at <http://www.dzs.hr/Eng/First%20Release99/FirstRelease.htm>.

205. See CROATIA STAFF REPORT, *supra* note 97, at 24.

206. See REAL SECTOR DEVELOPMENTS, available at <http://www.ipis.online.bg/macroeco/realsec.html> (2000).

207. See NATIONAL COMMISSION FOR STATISTICS, REGISTERED UNEMPLOYMENT—1999, available at http://www.cns.ro/Indicatori/San_2000/eng/unemployment_1999_eng.htm.

In Macedonia, unemployment during the Kosovo crisis remained extremely high at 32.5 percent.²⁰⁸ Unemployment benefits remained high, resulting in a \$22 million grant from the United States to assist in paying unemployment benefits.²⁰⁹ Macedonia's unemployment rate actually fell by two percentage points during 1999, as compared to the previous year.²¹⁰ The Kosovo crisis actually provided a significant number of jobs to Macedonia in the area of aid work.

Albania's unemployment rate did increase during the Kosovo crisis, but the cause of the escalation is not entirely clear. In a meeting with German Chancellor Gerhard Schroeder, Albania Democratic Party Chairman and former President Dr. Sali Berisha stated that the unemployment rate "increased from 11 percent to 47 percent and in certain areas to 67 percent."²¹¹ According to Berisha, this increase was a result of the Kosovo crisis compounded by organized crime and corruption.²¹² However, a report by the Albanian Ministry of Labor concluded that the two main causes of the rise in unemployment during the period of the war were the continued privatization of state-owned enterprises and the migration of people from rural to urban areas.²¹³ In addition, the influx of refugees from Kosovo actually lowered unemployment in the northern district of Kukes because the opening of the border with Kosovo boosted the activities of local companies, creating a demand for more labor.²¹⁴

6. *Foreign Direct Investment*

Foreign direct investment (FDI) is another important indicator of the region's economic health after the Kosovo crisis. Again, results vary across the region, but evidence does not indicate a permanent "widespread collapse" of FDI in Southeastern Europe as a result of the conflict.²¹⁵

FDI in Bulgaria and Croatia actually increased between 1998 and 1999. Although FDI into Bulgaria between January and June 1999 was \$220 million, \$10 million less than during the same period in 1998,²¹⁶ the last two quarters of 1999 saw a sharp rise in FDI. Curiously, Bulgaria closed the largest privatization deals in its history during the war. Russia's Lukoil acquired the Neftochim oil refinery at the Port of Borgas, while Israel's Zeevi Group acquired the national air carrier, *Balkan*, and Hellenic Telecom partnered with other West European interests to emerge as the high bidder for Bulgarian Telecom. Foreign investors seemed prepared to make long-term commitments in Sofia.

However, FDI in Albania, Macedonia, and Romania declined. Romania was hit exceptionally hard, losing roughly fifty percent of its foreign investment between 1998 and 1999. Albania, which had the least amount of foreign investment among the countries in the region, also saw a decline in FDI. According to Dr. Berisha, the combination of corruption

208. See MACEDONIA STAFF REPORT, *supra* note 110, at 5.

209. See U.S. *Aid for Macedonia*, RFE/RL NEWSLINE, Dec. 14, 1999, at <http://www.rferl.org/newsline/1999/12/141299.html>.

210. See MACEDONIA STAFF REPORT, *supra* note 110, at 5.

211. Press Release, Democratic Party of Albania, Schroeder-Berisha Meeting (Sept. 22, 1999), available at <http://www.albania.co.uk/dp/220999.html> [hereinafter Press Release].

212. *Id.*

213. See ICG ALBANIA, *supra* note 195, at n.5.

214. See *id.*

215. EBRD REPORT, *supra* note 88, at 84.

216. See STANCHEV REPORT, *supra* note 95, at 1.

and organized crime in Albania, compounded with the crisis in Kosovo, caused over ninety percent of foreign investors to leave Albania.²¹⁷ During 1999 and early 2000, no major foreign investment deal was completed in Albania.²¹⁸ The significant decline in FDI in Macedonia is directly attributable to the Kosovo Crisis. The perceived instability resulting from the military campaign and the refugee crisis, as well as the fear that the conflict would exacerbate the ethnic balance within Macedonia, caused the decline in FDI.

V. Post-Conflict Initiatives

A. STRUCTURAL REFORM

The EBRD notes that "[t]here is no clear evidence that the crisis in Kosovo has affected the willingness or the pace of structural reform efforts in the [Southeastern European] region. All countries in the region have continued, and on some occasions even accelerated, difficult reforms during the course of 1999."²¹⁹

The countries in the region continue to meet the targets set by the IMF for compliance with loan programs. Albania, for example, has continued to implement structural reforms "despite the adverse effects of the Kosovo crisis."²²⁰ Albania liquidated, privatized, or transferred to local authorities 520 small or medium-sized enterprises in 1999.²²¹ Furthermore, the administrative bureaucracy was reduced by 5,000 employees during 1999.²²² Bank privatization, which was halted during the Kosovo crisis and is one of the most important structural reforms, is back on track.²²³

Bulgaria continues to implement structural reforms started in 1997. In fact, during the Kosovo crisis, the IMF reported that Bulgaria actually accelerated structural reforms.²²⁴ In July 1999, laws giving the state the right to intervene in price setting were abolished, and privatization proceeded apace.²²⁵ The country also acceded to CEFTA in 1999 and signed free trade agreements with Turkey and Macedonia.

Although Romania experienced a financial crisis in 1998, reforms nevertheless progressed during the Kosovo crisis.²²⁶ For example, in March 1999, the Romanian Development Bank became the first Romanian bank to be privatized.²²⁷ In June 1999, a new privatization law was passed, giving small shareholders more control and access to information.²²⁸ Following a recent review, the IMF Executive Board called on the World Bank to work with Romania

217. Press Release, *supra* note 211.

218. See ALBANIA STAFF REPORT, *supra* note 8, at 14.

219. EBRD REPORT, *supra* note 88, at 84. The EBRD lists eight transitional indicators to be taken into account when grading structural reform in Eastern Europe: large-scale privatization, small-scale privatization, trade and foreign exchange systems, price liberalization, enterprise restructuring, competition policy, banking reform and interest rate liberalization, and securities markets and nonbank financial institutions.

220. ALBANIA STAFF REPORT, *supra* note 8, at 43.

221. *Id.*

222. *Id.* at 14.

223. *Id.* at 49. Both the National Commercial Bank and the Savings Bank appear to be on the way towards privatization by the end of 2000.

224. IMF REPORT SEPT. 1999, *supra* note 83, ¶ 8.

225. EBRD REPORT, *supra* note 88, at 202.

226. IMF REPORT SEPT. 1999, *supra* note 83, ¶ 8.

227. EBRD REPORT, *supra* note 88, at 254.

228. *Id.* at 255.

to "undertake a comprehensive program to address structural weaknesses in the regulation and supervision of non-bank financial institutions."²²⁹ The IMF regards these structural reforms as "critical."²³⁰

Macedonia, the country hit hardest by events in Kosovo, had a virtual economic breakdown during the first half of 1999. Structural reforms, already progressing slowly, were halted.²³¹ As a result, Macedonia defaulted on commitments to an IMF Enhanced Structural Adjustment Facility (ESAF), which included addressing fundamental weaknesses in the banking and enterprise sectors.²³² Since the end of the crisis, Macedonia has resumed privatization and stabilization programs.²³³ There are, however, significant hurdles that Macedonia must overcome, including "downsizing the bloated civil service" and accelerating enterprise sector reforms so that corporate governance and enterprise performance will improve.²³⁴

Croatia is in "the final stretch towards World Trade Organization (WTO) accession."²³⁵ Several laws have been amended or passed to ensure compliance with WTO principles. Relative to earlier events surrounding the break-up of Yugoslavia, the Kosovo crisis did not have a strong effect on Croatia. The number of Kosovar refugees and asylum seekers into Croatia was also small compared to other Balkan states and did not, therefore, strain governmental control over the reform process. Finally, the change in government at the end of 1999 has led to an invigorated reform schedule as Croatia aspires to accede to European institutions.

In Bosnia, current economic indicators are promising, with low inflation and growth in GDP estimated at ten percent in 1999.²³⁶ Structural reform will continue to be a struggle. For example, the privatization of banks and enterprises and the harmonization of excise taxes across the Entities have been extremely slow and continue to be hampered by ethnic divisions.²³⁷

B. RECONSTRUCTION AND STABILITY IN SOUTHEASTERN EUROPE

When dealing with issues of reconstruction and stabilization in Southeastern Europe, it is best to remember that the problems and challenges are not merely the consequence of a decade of turmoil and war. They also reflect the influence that fifty years of communism had on the economies of these countries.²³⁸

One of the major issues confronting the region after the Kosovo crisis is the overall stabilization. The response by the international community to conditions arising in Southeastern Europe has long been "piece-meal . . . wondering where the next crisis would erupt,

229. *IMF Completes Romania Review, Approves Extension and \$116 Million Credit*, IMF NEWS BRIEF, June 7, 2000, at <http://www.imf.org/external/np/sec/nb/2000/NB0042.htm>.

230. *Id.*

231. MACEDONIA STAFF REPORT, *supra* note 110, at 3.

232. IMF REPORT SEPT. 1999, *supra* note 83, ¶ 8.

233. EBRD REPORT, *supra* note 88, at 218.

234. MACEDONIA STAFF REPORT, *supra* note 110, at 28.

235. EBRD REPORT, *supra* note 88, at 206.

236. *Id.*

237. *Id.*

238. Chris Patten, Remarks at the Conference on Economic Reconstruction in the Balkans (Sept. 24, 1999) [hereinafter Patten Remarks].

attempting to apply the sticking plaster when it did."²³⁹ For there to be any long-lasting peace and stability in the region, there must be a plan to revive and build the region's economy as a whole.

In addition, the countries of the region must continue implementing market-oriented reforms. This includes encouraging the international community to participate in foreign direct investment, improve conditions for trade, and assist in reducing the development gap.

Finally, enduring reforms cannot rest on individual countries or even on cooperation among nations in the region. The Balkans must be integrated with Europe, specifically with the European Union.²⁴⁰

Former Macedonian President Kiro Gligorov spoke eloquently about this issue:

Relations among Balkan countries must be based on new European relations . . . There is limited opportunity for economic cooperation. The Balkan countries are small countries with small markets. To leave the region outside of Europe, to embrace the recommendation for a miniature partnership for peace is not the answer. Macedonia does not shy away from regional cooperation. However, association and integration should not be of the region as a whole, but of each country depending on the development of its democracy. Otherwise, the least advanced in terms of economy, legal systems, democracy, and minority rights—will hold back the integration of other countries.²⁴¹

C. Stability Pact

The Stability Pact for Southeastern Europe, in which twenty-eight countries and several international organizations participate, is the primary initiative controlling post-war economic reconstruction in Southeastern Europe.²⁴² The Pact's chief objective is to foster greater economic integration and political cooperation among the countries of Southeastern Europe, and to assist the region as a whole in achieving closer integration with Europe. To accomplish this, the nations of Southeastern Europe have pledged their cooperation in meeting a preliminary set of objectives.²⁴³ The European Union appointed a special coor-

239. *Id.*

240. See THE ROAD TO STABILITY, *supra* note 6.

241. Kiro Gligorov, Address on the International Commission on the Balkans Report, Unfinished Peace, at the Regional Meeting of the Aspen Institute of Berlin (Mar. 1998).

242. European Commission, Organization for Security and Cooperation in Europe, the Council of Europe (OSCE), United Nations, United Nations High Commissioner for Refugees (UNHCR), NATO, the Organization for European Cooperation and Development (OECD), the West European Union (WEU), the IMF, the World Bank, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Black Sea Economic Cooperation (BSEC), the Central European Initiative (CEI), the Southeastern Europe Cooperation Initiative (SECI), the South Eastern Europe Cooperation Process (SEECp), and the Southeastern European Defense Ministers (SEDM) group.

243. These objectives include: implementing measures intended to dispel tensions and existing potential for conflict; establishing a democratic political process and a free and open society; creating a good relationship with the other countries in the region through observance of the Helsinki Final Act; preserving diversity in the nations and protecting minorities; creating market economies; economic cooperation between the countries in the region and between the region and the rest of the world, including free trade areas; promoting unimpeded contacts among citizens; combating organized crime, corruption, and terrorism; working to prevent population displacement as a result of war, persecution, or poverty; ensuring the safe return of refugees; and creating conditions conducive for countries in Southeastern Europe to fully integrate into political, economic, and security structures of their choice. Stability Pact for South Eastern Europe, June 10, 1999, § 111, ¶ 10 [hereinafter Stability Pact].

dinator, and has outlined a Stability and Association Process, focusing on bilateral agreements that aim at eventual EU membership for each participating country. While the European Union will make a final determination on questions of integration, it will take into consideration the achievements and progress that each nation makes under the Stability Pact.²⁴⁴

The countries of Southeastern Europe view the Stability Pact as a channel through which the international community can help to bring stability and prosperity to the region. As stated by the Macedonian Ambassador to the United States, "the Stability Pact offers a significant opportunity for peace, stability and prosperity to prevail in the region of South East Europe and its integration into the European family."²⁴⁵ At the same time, countries of the region tend to see the Pact as a "complex web of mutual commitments" that has yet to bring concrete results and is "not immune from bureaucratic wrangling and institutional rivalries."²⁴⁶ As one diplomat stated, "The membership of the Stability Pact should stop coordinating and start cooperating."²⁴⁷

The countries of Southeastern Europe have warned about the problems of delaying the Pact's implementation:

We expect the international institutions to promptly effectuate their support to the realization of the projects included in the Pact. It is the only way to commence in a timely manner the process of comprehensive development of the region. Any inefficiency or delay in the projects' realization may impede our common goals contained in the Stability Pact and may be even interpreted as [a] wrong signal for the countries in the region. Therefore we advocate prompt realization of the approved projects in accordance with the conclusions of the first Regional Funding Conference in Brussels.²⁴⁸

Countries in the region are also becoming frustrated with the lack of progress from the Stability Pact.²⁴⁹ In a recent roundtable discussion in Washington, D.C., the ambassadors from Southeastern Europe commented that although there have been many meetings regarding the Pact, there has been very little international support or funding for several proposed projects.²⁵⁰ Progress, the ambassadors stressed, is needed to maintain popular support, and failure to show results could lead to election losses for the region's current democratic governments.²⁵¹ All ambassadors at the Washington Roundtable agreed that at

244. *Id.* ¶ 20.

245. Letter from Ljubica Z. Acevska, Macedonian Ambassador to the United States, to Mark Ellis (June 13, 2000) (on file with author) [hereinafter Acevska Letter].

246. Letter from Géza Jeszenszky, Hungarian Ambassador to the United States, to Mark Ellis (Jan. 27, 2000) (on file with author).

247. *Bulgaria Opposed to Kosovar Independence*, RFE/RL NEWSLINE, June 20, 2000, at <http://www.rferl.org/newsline/2000/06/200600.html>.

248. Acevska Letter, *supra* note 245.

249. *Bulgaria Opposed to Kosovar Independence*, *supra* note 247.

250. Roundtable Discussion hosted by the Central and East European Law Initiative (CEELI) at the Washington office of the American Bar Association, *The Consequence of the Kosovo Crisis on Southeastern Europe* (June 8, 2000) (transcript on file with author) [hereinafter Washington Roundtable]. The roundtable was attended by Albanian Ambassador to the United States, Petrit Bushati; Bosnian Ambassador to the United States, Sven Alkalaj; Bulgarian Ambassador to the United States, Philip Dimitrov; Macedonian Ambassador to the United States, Ljubica Z. Acevska; Romanian Ambassador to the United States, Mircea Geoana; Deputy Chief of the Croatian Mission to the United States, Branko Baricevic; and the Head of the Montenegrin Trade Mission to the United States, Dr. David Dj. Dasic.

251. *Id.*

least one concrete project per country needs to be completed as soon as possible to avoid losing the faith of the people. In addition to economic aid, the ambassadors favored an aggressive program to create a judicial and policing system, thus establishing a legal framework for the future.²⁵²

Criticism of the Pact has also come from prominent "outside" players who view it as "an empty thing without any content."²⁵³ The danger, they charge, is in having "unrestricted markets . . . combined with governments too weak to maintain law and order."²⁵⁴ Others question whether the Pact will really move things along or remain a "rather clumsy structure, with its nearly 40 members."²⁵⁵ The argument is that, because of the Pact's large number of constituents, real work is difficult to achieve and, realistically, agreements between organizations like NATO, OSCE, the European Union, and the World Bank can never be carried out.²⁵⁶ Such skepticism is further fed by the unrealistic expectations held by many in Southeastern Europe. They expect the Stability Pact to improve their living standards, and this, in turn, has raised hopes within the region beyond what is possible.²⁵⁷

There is further concern that the Stability Pact Coordinator has neither power nor control over the "purse strings" and civil service that are essential for effecting change in the region,²⁵⁸ or in other countries in the region. Instead, he/she can only try to persuade the various international government and NGOs to assist the region.²⁵⁹

Another focal point for criticism is that the Pact so far has not accelerated the process of gaining membership in the European Union.²⁶⁰ Instead, the EU continues to rely on bilateral treaties (Europe Agreements) designed to speed up the reform process within prospective member states. The Stabilization and Association Agreement, which does not promise future EU membership, is an alternative form of contractual relations used by the European Union for the "Western Balkans."²⁶¹

Yet, the countries of Southeastern Europe count European integration as the region's number one priority. As one representative stated: "The most serious guarantee for the security of Southeastern Europe and its transformation into the region of democracy, prosperity and stability and cooperation is full integration of the countries from the region into NATO and the European Union."²⁶²

However, as a precursor to EU membership, the countries of Southeastern Europe must benefit from integration into existing European organizations.²⁶³ One of these organizations

252. *Id.*

253. Don Hill, *International Financier Criticizes Balkan Stability Pact*, RFE/RL, Oct. 11, 1999, at <http://www.rferl.org/nca/features/1999/10/f.ru.991011141720.html>.

254. *Id.*

255. Cyrill Steiger, *Europe's Plan for Pacifying the Balkans. The Stability Pact: Verbal Activism or a New Start?*, NZZ ONLINE (Nov. 11, 1999), at <http://www.nzz.ch/english/background/background1999/background9911/bg991110balkans.html>.

256. *See id.*

257. *See id.*

258. *What They Said: Special Coordinator of the Southeastern Europe Stability Pact Bodo Hombach*, EUROPE, Feb. 2000, at A.

259. *Id.*

260. Vladimir Gligorov, *Scoring the Stability Pact* (May 3, 2000), at <http://www.omri.cz/may00/scoringt.html>.

261. *Id.*

262. Acevska Letter, *supra* note 245.

263. ASPEN INSTITUTE BERLIN, INTERNATIONAL CALL FOR ACTION STUDY GROUP: THE FUTURE OF THE BALKANS 33 (1998).

is CEFTA. CEFTA should reach out to include the Southeastern Europe countries as members. Membership criteria should include economic and political benchmarks designed to lead to EU membership.²⁶⁴ The Southeastern European countries should also take full part in other regional organizations such as the WTO, Southeastern Europe Cooperation Initiative (SECI), Central European Initiative (CEI), South Eastern Europe Cooperation Process (SEEC), Southeastern European Defense Ministers (SEDM), the European Commission, Organization for Security and Cooperation in Europe (OSCE), and the Council of Europe.²⁶⁵

Perhaps the most popular argument against the Stability Pact is that the FRY remains outside the Stability Pact group. There is a general sense that "without a democratic Federal Republic of Yugoslavia there can be no lasting stability in the region."²⁶⁶

For economic reconstruction to be successful, the involvement of the FRY is vital. The Kosovo war, including the NATO bombing, destroyed much of Serbia's industrial base. Despite the current embargo against the FRY, its eventual recovery is crucial for the economic health and political stability of Southeastern Europe. The FRY is important to the region because of its market size and its strategic geographical position as a main transport route between Western Europe and the Balkans.²⁶⁷ As one commentator stated, "it is hard to imagine the Pact succeeding without Serbia. Kosovo's infrastructure and economy is [sic] inextricably linked with Belgrade through ownership of many companies serving the Kosovo economy."²⁶⁸

The neighboring countries of Southeastern Europe are unanimous in their position that trade normalization with the FRY should be achieved as soon as possible. Following normalization, intraregional trade can be restored quickly. In addition, foreign direct investment is likely to increase because investors tend to see Southeastern Europe as a large regional market, rather than as single country markets.²⁶⁹ Open border crossings and simplified regional transportation are only a few of the benefits that will be gained by foreign investors when the FRY is again economically liberalized. Eventual restructuring of the FRY will also have a multiplier effect in the region, given participation by other Southeast European countries in rebuilding the FRY.

The lack of transportation routes to and from the former Yugoslavia still contributes to the poor trade performance of neighboring countries. The Danube River, Serbian roads, and railways remain essential transport routes from Southeastern Europe to Western Europe and other ports within the region.²⁷⁰ The EBRD estimates that the closure of transport routes through Serbia raised transport costs by up to fifty percent for exports from Bulgaria and Macedonia to the European Union.²⁷¹

The closing of the Danube, however, is not the main reason for difficulties in transporting goods from the region to Central Europe. In February 2000, Belgrade tightened its trade embargo against Macedonia by restricting both imports and the export of grain and other

264. *Id.*

265. Patten Remarks, *supra* note 238.

266. Bodo Hombach, Address at the Summit Meeting of the Heads of State and Government of the South East Europe Co-operation Process (Feb. 12, 2000).

267. *Id.*

268. Dickon Reid, *Turning Words into Deeds*, CENTRAL EUROPEAN, Sept. 1999.

269. Discussions with ambassadors from the region.

270. EBRD REPORT, *supra* note 88, at 84.

271. *Id.*

food to Macedonia.²⁷² It also required a license for Macedonian trucks and trains to travel through Serbian territory.²⁷³ Because roughly seventy percent of Macedonia's total exports go through the FRY,²⁷⁴ this action closed Macedonia's most efficient route to Europe and forced the country to rely on more expensive and longer routes through Kosovo and Bulgaria.²⁷⁵ Prior to the Kosovo War, Macedonia had sent roughly 25,000 truckloads of cargo a year north into Serbia.²⁷⁶

It is significant that the countries of Southeastern Europe not only believe that a key to peace, prosperity, and security in the region is a democratic FRY, but are willing to include representatives from the FRY in the reform efforts.²⁷⁷ Already, representatives from Montenegro and from Serbian opposition groups participate in the Stability Pact as guests.²⁷⁸ One Stability Pact initiative to promote ties with opposition-ruled municipalities in Serbia has gained wide support among Pact members. The "Szegeed Process" will establish relations between Western cities and Serbian cities so as to promote ties to the Serbian opposition.²⁷⁹ The thought is that it is necessary to support democratic forces in the FRY and promote their efforts towards democratic change, including the removal of FRY president Slobodan Milosevic from office.²⁸⁰ Although it is unrealistic to expect these changes to occur overnight, the countries in the region support a concentrated effort towards achieving this aim.²⁸¹

The Stability Pact has achieved some success in reversing the flight of FDI out of the region. Their first initiative was an "Investment Compact" designed "to assist countries in the region in promoting private sector development and [in] attracting foreign investment."²⁸² It is hoped that other initiatives, to reduce crime and corruption, for example, or to promote democratization and human rights and strengthen regional security, will help raise investor confidence in the region and promote economic growth.²⁸³

As the Stability Pact gains momentum, its successes may quiet the critics. However, this will depend particularly on maintaining realistic expectations about the Pact. It is important for all parties to remember what the Stability Pact is not. As Mate Granic, Croatian Minister for Foreign Affairs, stated: "The Pact is not an international organization and thus it does not have membership. The Pact is not an international agreement and, therefore, it is not signed. The Pact is an expression of political will of the countries participating in it."²⁸⁴ Critics may still try to fault the scheme, but as long as each nation can voluntarily commit

272. ICG GRAIN REPORT, *supra* note 153, at 22.

273. *Id.* at 156.

274. INTERNATIONAL MONETARY FUND, THE ECONOMIC CONSEQUENCES OF THE KOSOVO CRISIS: AN UPDATED ASSESSMENT (1999), available at <http://www.imf.org/external/pubs/pt/kosovo/052594.htm>.

275. ICG GRAIN REPORT, *supra* note 153, at 23.

276. Author's discussion with Glenn Levine, Consultant to ABA/CEELI, on trade issues in Southeastern Europe.

277. Washington Roundtable, *supra* note 250.

278. Press Statement, U.S. Dept. of State, Achievements of the Stability Pact for Southeast Europe (April 6, 2000).

279. *Id.*

280. Washington Roundtable, *supra* note 250.

281. Acevska Letter, *supra* note 245.

282. Fact Sheet from the Office of the Press Secretary, White House, Achievements of the Stability Pact for Southeast Europe (Nov. 18, 1999), at <http://ofcn.org/cyber.serv/teledem/pb/1999/nov/msg00213.html>.

283. *Id.*

284. Mate Granic, Croatian Deputy Prime Minister, Speech before the Croatian Parliament (Oct. 19, 1999).

to regional stabilization efforts, then the Stability Pact will serve a useful function in South-eastern Europe.

VI. Conclusion

While events in Kosovo were largely overshadowed by a decade of conflict that devastated the former Yugoslavia, the crisis of 1999 was by no means unforeseen. Belgrade's nullification of Kosovo's once protected autonomy capped seven years of increasingly harsh and repressive policies in that province. As early as 1991, international organizations were warning of the grave consequences of Serbian oppression in Kosovo. Nevertheless, the violations of human rights and fundamental freedoms in Kosovo, in particular the repression of the ethnic Albanian population, continued unabated.

Even after the Dayton Accords effectively ended Belgrade's war against Bosnia, the international community essentially chose to ignore the Kosovo problem. This single-minded preoccupation with Bosnia not only prevented an early resolution to the emerging crisis in Kosovo, but set in motion an inevitable chain of events that ultimately led to the outbreak of war.

The effect of the Kosovo war on neighboring countries was both immediate and severe. At the height of the crisis, roughly 700,000 refugees from Kosovo were sheltered throughout Southeastern Europe, most of them in Albania and Macedonia. Fortunately, due to tremendous efforts on the part of neighboring countries and substantial aid from the international community, the international response to the refugee crisis was relatively effective. By July 1999, ninety-five percent of the refugees housed in neighboring countries had returned to Kosovo.

While the burden of supporting vast refugee populations placed a tremendous strain on the countries of Southeastern Europe, the overall effect on the region's economic stability was not severe. Relatively poor economic performance throughout the region during the 1990s suggests that the Kosovo crisis may not have caused the reversal of fortune that many Southeast European governments claimed.

For most neighboring countries, the most serious economic repercussion was the loss of the Yugoslav market for exports. However, a detailed analysis of trade patterns indicates that the war's effect on the region's exports was relatively insignificant. There are two main reasons for this assessment. First, regional exports quickly rebounded from the crisis. Second, interregional trade is negligible for most countries in Southeastern Europe. Croatia and Macedonia are the two exceptions to this finding, as both conduct substantial trade within the region.

Other economic indicators such as the GDP, balance of payments, CAD, unemployment, and FDI suggest that the Kosovo crisis did not create permanent, or even long-lasting, damage to the region's economic base. There is also no clear evidence that the crisis in Kosovo affected the willingness or the pace of structural reform efforts in the region.

Of course, structural reform will continue to be a struggle for the region, and the process of reconstruction and stabilization in Southeastern Europe must remain a priority for the international community. One unexpected consequence of the Kosovo crisis is the recognition that long-lasting peace and stability hinge on the growth and continued strength of the region's economy.

The Stability Pact for Southeastern Europe, in which twenty-eight countries and several international organizations participate, is currently the primary vehicle through which to achieve sustainable economic reconstruction in the region. While the countries of South-

eastern Europe see the Stability Pact as a potential impetus to regional stability and prosperity, they have also expressed frustration with the lack of progress from the Stability Pact.

If, in fact, the international community is successful in bringing about fundamental economic restructuring for the region as a whole, then Southeastern Europe may finally enter into a period of sustainable economic growth. While this is by no means a guarantee against future Balkan crises, regional economic stability and renewed cooperation will enhance the likelihood of lasting peace in the region.

